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C O N F I D E N T I A L SECTION 01 OF 03 PRETORIA 000329

SIPDIS

DEPT FOR EEB/TRA/OTP
DEPT FOR EEB/TRA/AN/TERRI ROBL
ROME FOR ANTHONY GIOVANNIELLO
DAKAR FOR MO KEANNE
FAA FOR NANCY ANGELO AND MEL CINTRON

E.O. 12958: DECL: 02/19/2019
TAGS: [ELAB](#) [EIND](#) [EAIR](#) [ECON](#) [PREL](#) [PGOV](#) [PHUM](#) [SF](#)
SUBJECT: SOUTH AFRICAN AIRWAYS CORRUPTION PROBE COULD
THREATEN RESTRUCTURING AND EXPANSION PLANS

REF: A. 08 PRETORIA 2612
[1](#)B. 08 PRETORIA 2754

Classified By: Classified By: A/DCM Perry BALL for reasons
1.5 (b) and (d).

[1](#)1. This cable is a collaboration between Embassy Pretoria
and Consulate Johannesburg Labor Office.

[1](#)2. (C) Summary: South African Airways, (SAA) Board of
Directors has launched an investigation into allegations of
high-level mismanagement and corruption. CEO Khaya Ngqula
has been placed on special leave, pending the outcome of the
investigation. Labor leaders endorsed the action as a first
step in reducing corruption and financial mismanagement at
SAA. A senior Department of Transport official believes
Ngqula will not retain his position after the investigation
is completed. Industry and opposition political leaders
criticized the government's support of Ngqula and blamed him
for SAA's continued financial woes. SAA will have to
address the mismanagement and corruption charges and improve
relations with its union if it hopes to achieve its costly
expansion and fleet modernization plans. End Summary

CEO ACCUSED OF MISMANAGEMENT AND CORRUPTION

[1](#)3. (SBU) SAA's Board of Directors has appointed a committee
to investigate alleged misconduct by SAA CEO Khaya Ngqula in
relation to an SAA tender. The allegations were leveled by
the South African Transport and Allied Workers Union
(SATAWU), which presented documentation to the Department of
Public Enterprises (DPE) alleging that French-based Servair
had emerged as the preferred bidder to supply 180,000 weekly
in-flight meals on domestic routes due to its ties with
Ngqula and his wife, Mbali Gasi. The contract worth R3.5
billion (\$345 million) has not been finalized. The union
pointed out that Servair's Black Economic Empowerment (BEE)
partnership was with a consortium that was co-owned by Gasi.

[1](#)4. (SBU) Ngqula was placed on special leave (and not
suspended), until the investigation is completed. The SAA
committee appointed the independent forensic audit firm KPMG
to conduct an in-depth investigation on February 10. The
investigation will also address concerns regarding large
retention bonuses and salaries paid to top SAA executives
(including Ngqula), while SAA was receiving generous

government bailouts, restructuring, and shedding jobs.

UNION WELCOMES BOARD INVESTIGATION

15. (C) SATAWU endorsed the SAA board's strategy as "a good first step" towards eliminating what it sees as corruption, bad corporate governance, ineffective financial administration, and nepotism at SAA. SATAWU General Secretary Randall Howard told FSN Labor Specialist on February 11, that SAA CEO Khaya Ngqula has lost "his passion and commitment" to South Africa's troubled national carrier. Howard felt Ngqula's indifference was best shown by the fact that an "abnormally high" portion of SAA's budget is allocated to pay senior staff salaries, despite the fact that most union members had agreed to concessions in hopes of revitalizing the airline.

16. (C) SATAWU was especially pleased that the investigative Q6. (C) SATAWU was especially pleased that the investigative committee had the power to undertake disciplinary action should it be warranted. Howard said the committee must start immediately to manage the inevitable negative press. The union's goals remained for the airline to own up to legitimate allegations of corruption and quickly clean up its act so that SAA's reputation (and by definition its popularity) would be restored. (Note: Two recent cases of drug trafficking by SAA crew members on international flights to London is further deteriorating the airline's public image. See septel for further information on drug busts).

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17. (C) Howard believed the next step was for Ngqula to resign. He questioned why the African National Congress (ANC) had not ordered the resignation given that the SAG is SAA's controlling shareholder. Howard said SATAWU had dismissed the idea of a union strike at SAA because it wanted the independent investigative board to carry out its mandate "and take appropriate disciplinary actions." Howard concluded that SATAWU would revisit the idea of labor unrest if the board did not "live up to its mandate." (Note: SATAWU announced a strike on February 20 demanding the extension of retention premiums to all employees and the end of SAA's use of labor brokers.)

NGQULA's FUTURE UNCERTAIN

18. (C) A senior Department of Transport (DOT) official told Transport Officer on February 12, that Ngqula would not likely complete the terms of his contract, which is set to expire in October 2010. The official noted that questions had also been raised about other SAA procurement decisions and Ngqula was losing ANC political support due to the negative publicity surrounding the current investigation. He lamented that BEE was being manipulated in government procurement processes to the point that "securing the right BEE partner" (i.e., a politically connected or influential partner) could mean the difference between winning and losing a tender award. (Note: Post has heard other allegations of inappropriate/corrupt management behavior at SAA from a U.S.-based company hoping to procure a separate contract).

19. (C) The DOT official indicated that likely political changes following the April general elections would further reduce support for Ngqula. The last two DPE Ministers have consistently championed SAA restructuring plans and publicly supported Ngqula's management decisions. The DOT official speculated that the DPE might be completely disbanded or reduced in power following the election. He also expected the in-coming DOT Minister to play a greater role in decision-making for SAA management and procurement processes,

which would reduce Ngqula's support base within the ANC.

NGQULA BLAMED FOR CONTINUED FINANCIAL WOES

¶10. (SBU) The local aviation industry, opposition Democratic Alliance Party leaders, and some SAG officials have criticized both Ngqula's leadership and the DPE's continued support of the embattled national carrier. To date, the SAG has provided more than \$1.1 billion in subsidies and bailouts for SAA's restructuring plan. SAA had approached the SAG for additional funds worth approximately \$280 million to support fleet modernization and new route expansion plans (Reftel B). Finance Minister Trevor Manuel rejected the request, but announced a further R1.6 billion (\$158 million) in subsidies in his 2009 budget speech. The budget announcement has received criticism from competing domestic carriers for rewarding SAA mismanagement and distorting market conditions.

¶11. (SBU) SAA Chief Financial Officer Kaushik Patel announced to the Parliament's Public Enterprises Committee that the airline's financial standing would decline further this year as it was burdened by debt. SAA is expected to post additional losses for the financial year ending March 2009 because of interest payments on debt and losses from hedging against the volatility in fuel prices. Patel stated that SAA would pay R300 million (\$30 million) in interest payments in the year ending March 2009, an amount that exceeded its operating profit during the same period. Patel also admitted that SAA had lost money on its decision to hedge forty percent of its fuel requirements for twelve months, but refused to mention the exact amount until the exchange rate for the last day in the period was known.

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COMMENT

¶12. (C) SAA will have to address the mismanagement and corruption charges in a timely and transparent manner to gain broad union, industry, and government support for its costly expansion and fleet modernization plans. SATAWU feels vindicated for the recent actions given that the union has been calling for an investigation of Ngqula since 2007. Newly-appointed Acting CEO Chris Smyth will also have to address the challenges of reducing the airline's dependence on state handouts and working with the prickly SATAWU. The union has been accused in the past of protecting jobs at all costs while tolerating low levels of efficiency.
LA LIME